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Report Highlights: New Zealand's beef exports in 2004 are forecast to decline to 525,000 tons due largely to a reduced slaughter. Export price margins are being pressured from challenging global market conditions and a strong New Zealand dollar. New Zealand domestic beef consumption is projected to increase as consumers reap the benefits of lower prices.

Includes PSD changes: Yes
Includes Trade Matrix: No
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SECTION I. SITUATION & OUTLOOK

A strong New Zealand dollar is likely to keep New Zealand's FOB prices in 2003-2004 for beef meat exports from rising above current depressed levels. Lower income expectations will encourage a reduced retention rate for dairy-origin calves for beef production as well as a modest reduction in beef breeding cow numbers. This should lead to a decline in New Zealand's beef cattle and beef breeding cow population of about 2.5 percent to 4.84 million as of June 2004. The dairy cattle herd is forecast to increase 1 percent to 4.66 million over the same period. Overall, NZ's total cattle population will decline, for a second year in a row, to 9.5 million by June 2004.

Total beef and veal slaughter is forecast to decrease 1.5 percent in the 2003-2004 season. With cattle slaughter weights projected to reach 257.5 kg., export grade beef production in 2003-2004 is forecast to reach 533,600 tons (CWE). Bobby veal slaughter is forecast to increase almost 3 percent. Average bobby veal slaughter weight is projected to reach 16.7 kg. and export grade bobby veal production in 2003-2004 is forecast to reach 25,300 tons (CWE). Total export grade production (beef, veal and bobby veal) in 2003-2004 is forecast to fall to 560,000 tons (CWE).

Industry sources anticipate that FOB beef prices will decline 7 percent in the 2003-2004 season due to the expectation that New Zealand's currency remains strong over the next year. The price projection takes into consideration a modest U.S. beef price recovery. Lower New Zealand FOB prices will translate into lower domestic market prices for beef, stimulating additional domestic meat consumption. Overall, exports are forecast to decrease nearly 2 percent to 525,000 tons (CWE) due to lower New Zealand export grade beef meat production, challenging global beef market conditions, and increasing domestic consumption.

New Zealand's key export markets over the coming year will be characterized by both challenges and opportunities. The North American market is being offered larger supplies of inexpensive South American product. The local industry is also speculating about the likelihood that Canadian beef will be re-admitted into the U.S. market. Marketing opportunities may develop from a decline in Australian production and U.S. cattle herd rebuilding. The outlook for the North Asian market is positive. Australia will export less to this area. New Zealand continues to monitor key markets in this region for sales openings which may result from concerns over Canadian and U.S. supplies due to the BSE issue. New Zealand exporters will look to establish a stronger presence in North Asia.

In May 2003, the New Zealand Government released a report outlining a program of research initiatives to reduce New Zealand's greenhouse gas emissions to meet its Kyoto Protocol (KP) obligations. The Government has decided to tax livestock (sheep, cattle and deer) farmers in order to raise NZ $8.4 million (1 NZ $ = 0.58 U.S. $) annually to carry out necessary gas emissions research. Affected farmers have voiced their opposition to the levy, but to date have been unable to change the Government's intentions. Ruminant emissions are responsible for more than 50 percent of NZ's total greenhouse gas emissions. The Government plans to exempt livestock farmers from responsibility to cover the cost of New Zealand's liability represented by livestock emissions under the KP which is estimated at NZ $50 to 125 million per annum.

SECTION II. STATISTICAL TABLES

PS&D TABLE - CATTLE NUMBERS

PSD Table						
Country	New Zealand					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Total Cattle Beg. Stks	9280	9280	9614	9614	9588	9591
Dairy Cows Beg. Stocks	3480	3480	3550	3550	0	3583
Beef Cows Beg. Stocks	1473	1473	1525	1525	0	1522
Production (Calf Crop)	3919	3919	3874	3963	0	3892
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	13199	13199	13488	13577	9588	13483
Intra EC Exports	0	0	0	0	0	0
Other Exports	11	11	11	11	0	5
TOTAL Exports	11	11	11	11	0	5
Cow Slaughter	1088	1088	1211	1276	0	1283
Calf Slaughter	1352	1352	1478	1510	0	1550
Other Slaughter	1093	1093	1159	1148	0	1104
Total Slaughter	3533	3533	3848	3934	0	3937
Loss	41	41	41	41	0	41
Ending Inventories	9614	9614	9588	9591	0	9500
TOTAL DISTRIBUTION	13199	13199	13488	13577	0	13483
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PS&D TABLE - BEEF/VEAL PRODUCTION

PSD Table						
Country	New Zealand					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	3533	3533	3848	3934	0	3937
Beginning Stocks	0	0	0	0	0	0
Production	610	589	665	635	0	630
Intra EC Imports	0	0	0	0	0	0
Other Imports	22	19	10	20	0	20
TOTAL Imports	22	19	10	20	0	20
TOTAL SUPPLY	632	608	675	655	0	650
Intra EC Exports	0	0	0	0	0	0
Other Exports	504	503	535	535	0	525
TOTAL Exports	504	503	535	535	0	525
Human Dom. Consumption	128	105	140	120	0	125
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	128	105	140	120	0	125
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	632	608	675	655	0	650
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	288	288	303	300	0	300

SECTION III. SUPPLY AND DEMAND, POLICY & MARKETING

STOCK NUMBERS[1]

The New Zealand cattle population (beef cattle, beef breeding cows, dairy cattle) decreased in the year to June 2003 to 9.59 million. Very dry autumn conditions in the lower North Island, the upper South Island and Canterbury in the South Island along with lower numbers of dairy-origin calf retentions in the spring of 2002 caused a 1.4 percent decrease of beef cattle and beef breeding cow numbers to 4.96 million. In contrast, New Zealand's dairy cattle population increased 1 percent to 4.63 million. The increase occurred due to 83 new dairy farm conversions and expansion of existing dairy herds. High milk payout expectations at the outset of the 2002-2003 season were responsible for the increase.

A strong New Zealand dollar is likely to keep New Zealand FOB prices in 2003-2004 for beef meat exports from rising above current depressed levels. Lower income expectations will encourage a lower retention rate for dairy-origin calves for beef production as well as a modest reduction in beef breeding cow numbers. This should lead to a decline in New Zealand's beef cattle and beef breeding cow population of about 2.5 percent to 4.84 million in the year to June 2004. The dairy cattle herd is forecast to increase 1 percent as a consequence of 36 dairy farm conversions in the spring of 2003 and the expansion of existing dairy herds. Overall, these developments are likely to result in a reduction of New Zealand's cattle population, for a second year in a row, to 9.5 million by June 2004.

BEEF AND VEAL PRODUCTION

A large number of "finishing" cattle carried over from the 2001-2002 season and dry autumn weather increased cattle slaughter 11 percent to 2.42 million in 2002-2003. Increasing numbers of dairy-origin calves and a reduced retention of these for beef production in 2002-2003 has increased bobby veal slaughter 12 percent to 1.51 million animals. Total beef and veal slaughter during 2002-2003 has increased 11 percent to 3.93 million. Total beef, veal and bobby veal export grade production increased 11 percent to 562,650 tons (CWE) in 2002-2003. All of the export grade production increase was not sold in export markets, though.

In the 2003-2004 season, total beef and veal slaughter is projected to decrease 1.5 percent. This reflects the expected decline in beef cattle numbers, which outweigh high dairy-origin beef calf retentions in the springs of 2001 and 2002 and more cull dairy cows from the expanding national dairy cattle herd. With cattle slaughter weights forecast at 257.5 kg., export grade beef and veal production in 2003-2004 is projected to reach 533,600 tons (CWE). Bobby veal slaughter is forecast to increase almost 3 percent. This would mark the fourth consecutive year of an

[1] Cattle numbers discussed in this section have not been adjusted to reflect new government data. A final adjustment of the livestock figures will be made in the 2004 semi-annual livestock report to allow Meat and Wool Innovation adjust their data series. Newly available data indicates that beef cattle and dairy cattle numbers as of June 2003 were 4.50 and 5.16 million, respectively. The discrepancy between the new government data and the numbers reported here are unlikely to affect production forecasts fundamentally.

increased bobby veal kill, which is due to the increased availability of dairy-origin calves from the expanding dairy cattle population along with significantly lower retention of dairy-origin calves for beef production in the spring of 2003. With bobby veal slaughter weights of 16.7 kg. export grade bobby veal production in 2003-2004 is forecast to increase to 25,300 tons (CWE). Total export grade production (beef, veal and bobby veal) in 2003-2004 is projected to decrease to 560,000 tons (CWE). Not all of this export grade production will be exported, though.

BEEF DEMAND

2002-2003 Review

By international standards, New Zealand is a small livestock producer. However, the New Zealand livestock sector contributes approximately 8 percent to global bovine meat trade. The North American market dominates New Zealand beef meat exports, taking approximately 70 percent by export volume, yet, generating only two thirds of total FOB export sales returns. This is due in part to the large proportion of lower quality manufacturing cow beef destined for the U.S. fast food trade. Consequently, this market region largely determines the profitability of the New Zealand bovine livestock industry. Over the ten-month period to April 2003, FOB prices from this market region have decreased 23 percent driven by a combination of declining M Cow beef prices in the United States (down 18 percent compared with a year earlier) and a strengthening New Zealand dollar, especially versus the U.S. dollar. New Zealand exporters comment that the New Zealand Government is contributing to considerable interest rate differentials between New Zealand's and those of trading partners due to its monetary policy. This attracts overseas investor interest, which strengthens the New Zealand currency.

In the year to April 2003, New Zealand exporters increased overall export volumes significantly, but did so at an average weighted FOB price 25 percent lower than during the same period a year earlier. The net effect on total FOB beef market sales returns was an estimated 10 percent decline to NZ $2.01 billion. The domestic price level decreased 9 percent over the same period. This resulted in the placement of an additional 50,000 tons (CWE) of beef meat in both the domestic and export market, which is consistent with Post's previous semi-annual assessment of the anticipated domestic and export sales composition in the 2002-2003 season. Export sales increased 6 percent to 535,000 tons, while New Zealand domestic consumption increased 14 percent to 120,000 tons to dispose of a total New Zealand CWE production of 635,000 tons. Total CWE production was 8 percent above the 2001-2002 level.

Exports to the North American market increased almost 26,000 tons (CWE) in the year to April 2003. Within this market region, exports to Canada decreased 22 percent due to Uruguay's readmission to the Canadian market in late 2002, and lower Canadian import requirements as Canadian exports to the United States and Mexico decreased. More recently, the Canadian requirements for granting supplemental beef import permits will make it more difficult to place additional exports in the Canadian market using the supplemental quota system. Export volumes to the United States in the year to April 2003 increased 17 percent as Canadian and Australian exports to the United States decreased in the first four months of 2003 compared with the same period a year earlier.

Exports to North Asia increased 8,500 tons (CWE) in the year to April 2003 while FOB price levels in this market region decreased only 10 percent. Within this market region exports to South Korea increased almost 20 percent after a long-standing non-tariff barrier was removed in July 2002. Exports to Taiwan increased more than 25 percent as beef meat consumption per capita increases steadily in this market, thanks in part to reduced tariffs and promotional programs. Export sales to Japan were down almost 10 percent as consumption has not recovered to pre-BSE levels.

2003-2004 Outlook

Industry sources anticipate that FOB beef prices will decline 7 percent in the 2003-2004 season due to the expectation that New Zealand's currency remains strong over the next year. The price projection takes into consideration a modest U.S. beef price recovery. Overall, total FOB sales returns are projected to decline 6 percent to NZ $1.93 billion. The decrease of FOB prices will translate into lower domestic market prices, stimulating additional domestic market sales. Exports are forecast to decrease 2 percent due to lower New Zealand export grade beef meat production, challenging global beef market conditions and domestic sales increases. Conditions in New Zealand's key markets are outlined below.

Exports to the United States, according to New Zealand officials, are anticipated to stay high as Australian beef production is forecast to decrease 16 percent in 2003-2004 (ABARE) and U.S. beef cattle herd rebuilding is expected to begin in early 2004. However, increasing inexpensive South American exports and anticipation by industry sources that Canadian beef is re-admitted into the U.S. market may temper these gains during that period. Furthermore, concerns over BSE by authorities in Japan and South Korea may increase U.S. domestic beef supplies.

New Zealand exports to Canada according to New Zealand officials are uncertain. As long as Canadian beef is banned in the United States, Japan and South Korea, Canadian authorities are unlikely to ease recently implemented conditions for issuing supplemental import permits. However, New Zealand exports under a 29,000 tons (product weight) annual global quota, which puts New Zealand exporters at an advantage. Uruguay can export to Canada only under the supplemental quota system without being charged the higher tariff rate.

The overall outlook for the North Asian market (New Zealand's second largest export market region behind North America) is more positive. Given that Australian production will decline New Zealand exporters may be able to establish a stronger presence in this market region. Tempering this could be inexpensive South American beef exports, though.

The North Asian market region offers the best potential for additional New Zealand export sales, except for Japan which has not resumed imports at pre-BSE levels. In addition, "safeguard" tariffs are likely to come into force in August 2003 leading to more uncertainty in the Japanese market. The safeguard tariff will probably only apply to fresh and chilled product as trigger levels for frozen product are unlikely to be exceeded (New Zealand exports approximately 20 percent fresh and chilled product to Japan). As a consequence of Japan's BSE concerns additional sales opportunities may emerge, however, neither Australia (due to decreasing production in 2003-2004) nor New Zealand (for quality reasons) are likely to take advantage of these.

The outlook for South Korea is positive. After the removal of a non-tariff barrier for freezing of chilled beef last year, beef consumption in South Korea increased 5 percent during 2002, according to New Zealand trade officials. There is also an anticipated shortage of domestically produced beef in 2004. In contrast to Japan, BSE concerns in South Korea may open additional sales opportunities for New Zealand exporters.

Export sales opportunities to Taiwan, where New Zealand predominantly supplies the food service industry, are encouraging according to the trade. A beef promotional alliance between the United States, Canada, Australia and New Zealand is anticipated to lift consumption and, therefore, sales of imported beef in the coming season.

Sales to North America, North Asia, and in the domestic market account for almost 85 percent of total New Zealand production. Market development activities in China, the Middle East and the Pacific region may stimulate modest export increases in the 2003-2004 season in those areas.

POLICY

New Zealand Government Plans Greenhouse Gas Research Levy for Livestock Farmers
In May 2003 the New Zealand Government released an independent report outlining a ten-year research program that will be required to reduce New Zealand's greenhouse gas emissions to meet Kyoto Protocol requirements. The New Zealand Government ratified the protocol in late 2002 despite widespread opposition from primary producers and other affected businesses. Ruminant gas greenhouse gas emissions in the form of methane and nitrous oxide (both are non-CO_2 emissions, caused also by ruminants) are responsible for more than 50 percent of New Zealand's total greenhouse gas emissions. While the New Zealand Government exempts livestock (sheep, cattle and deer) farmers from having to pay emission charges until 2012 (the end of the first commitment period, 2008-2012) it signaled last year that it reserved the right to levy livestock farmers to raise funds for necessary research. The Government sought voluntary funding from the sector but always maintained that it might introduce a compulsory levy if the sector failed to come up with sufficient funding on its own. In response, the industry set up a Pastoral Greenhouse Gas Research Consortium (see NZ3003) but to date is able to raise only NZ $800,000 annually[2]. However, the Government stated that the report identified a need for approximately NZ $8.4 million of research investment annually. Based on the average emission of each livestock type, farmers would pay NZ $0.09 for each mature sheep and NZ $0.54 to 0.72 for each mature beef or dairy animal per annum. An average-sized livestock enterprise would be levied at NZ $300 per annum.

Under the Kyoto Protocol, New Zealand is committed to reducing its greenhouse gas emissions to 1990 levels, or to paying for any emissions over this target (see: www.climatechange.govt.nz). According to official estimates, emissions from New Zealand agriculture increased 12 percent since then.

[2]Total current Government funding into emissions reduction research is almost NZ $14 million annually.

The Government indicates that it wants research to begin as soon as possible because of the extended time involved to develop new technologies and to implement these at the farm-level. The collection of the research levy is likely to begin in mid-2004 or once the required legislation and regulations are in place to collect it. The exemption of livestock farmers from paying for non-CO_2 emissions will shift the liability for approximately 5 million tons of CO_2 equivalent emissions to the Government at a cost of between NZ $10 to 25 per ton. To manage the research levy income and allocate funds to the appropriate research programs, the Government seeks to establish an Agricultural Emissions Research (AER) body. The AER body will be an entity jointly owned by the Government and a consortium of (not-yet-specified) sector bodies with the prime focus of meeting the Government's climate change objectives under its Kyoto Protocol obligations. While the Government has made these decisions in principle, it is still consulting with affected parties until August 2003 on issues relating to the collection and administration of the compulsory levy. Affected farmers and farmer representative bodies have voiced their opposition to the tax, but to date have been unable to change the Government's intentions.

Research Indicates Deer Emit Less Methane Than Sheep and Cattle

A research project funded by the Ministry of Agriculture and Forestry, AgResearch, DEEResearch, Wrightson, Agricom and Massey University has established that deer grazing on ryegrass pastures emit up to 50 percent less methane than sheep or cattle per unit of ryegrass intake. Deer Industry New Zealand commented that these findings needed to be confirmed with additional trials but they are positive for the deer industry, given that the Government is planning to implement a greenhouse gas research levy (see previous article). The research findings also indicate that deer grazing on ryegrass pastures produced twice as much methane per unit of feed intake compared with those grazed on a type of plantain. The research will be used by the New Zealand Government to establish more accurately methane emission levels prior 1990, as part of its commitment to the Kyoto Protocol.

Meat New Zealand and SheepCo Proposal for a Single Industry Organization

New Zealand livestock farmers have been asked to vote in August 2003 on whether they want their statutory representative bodies, Meat New Zealand and SheepCo[3], to merge into a single industry organization. The single organization concept seeks to combine the collection of meat and wool levies and create synergies by combining the performance of various functions. The new organization would be farmer-owned, with a corporate trustee holding shares on behalf of farmers. The vote will also seek the sanctioning for the compulsory levy itself and for the type of industry-good activities the levy will fund. According to proposed plans, the levies on livestock slaughter could raise NZ $27 million annually, based on current livestock numbers. The levy income would fund market development (39 percent), R&D and information transfer to farmers (33 percent), maintaining and improving market access and protecting meat and lamb quotas (10 percent), industry services (6 percent), and administration and miscellaneous tasks (12

[3]Meat New Zealand and SheepCo are funded through statutory levies paid by farmers under the Commodity Levies Act. Levies are calculated based on the slaughter of livestock and the sale of wool. Both organizations use the levy income to perform industry-good activities, which are activities that would otherwise not be performed by individual organizations because of "market failure".

percent).

The administration and management of quotas (mainly for beef to the United States and lamb to the European Union) by Meat New Zealand is not included in the levy vote. The quota administration will be retained due to a recent amendment to the Meat Board Act. The amendment guarantees that Meat New Zealand will keep the quota administration even if the referendum fails to support the concept of a single industry organization or the collection of a levy.

New Zealand Meat Processors Seek Certification from China

As part of both New Zealand exporters' desire to gain better access to China and a formal trade agreement between China and New Zealand, Veterinarians from China's border inspection agency will assess the New Zealand Food Safety Authority's audit system for the certification of New Zealand meat processing plants. New Zealand seeks to increase exports to this market since China has joined the WTO, which has led to significant import tariff reductions. However, New Zealand's export efforts have been restricted to the hotel and restaurant trade. Chinese accreditation of New Zealand's meat inspection systems would enable official access to the Chinese retail trade. The Chinese market for beef products is predominantly for low quality carcass components, including offal. In the year to April 2003, New Zealand exports have more than doubled to over 900 tons compared with the same period a year earlier. South American, U.S. and Canadian exporters are also increasingly active in the Chinese market. Australia is also seeking similar certification for its inspection systems.

MARKETING

United States, New Zealand, Australia, and Canada Join in "Beef Alliance"

A generic beef promotion campaign between four meat exporting nations is aimed at lifting beef consumption in Taiwan. The joint promotion effort, conducted by the United States, New Zealand, Australia, and Canada, called "Beef Alliance" (launched in Taipei on April 10 2003), is designed to raise beef consumption in Taiwan. Meat New Zealand contributed a quarter to the NZ $435,000 budget. Contributions to the budget by the participating nations were made according to their respective market shares (i.e. Australia - 42 percent, United States - 25 percent, Canada - 8 percent).

Taiwanese consumers are particularly interested in meat products which are nutritious and beneficial to their health. The campaign is consequently targeted to educate consumers that beef is an important source of iron, which is important in children's mental development. Meat New Zealand also hopes that the generic campaign will increase beef consumption in the restaurant sector where New Zealand beef is most prominent. More than three quarters of New Zealand's total exports of 15,200 tons (93 percent frozen, 7 percent chilled) in the 2001-2002 season were table cuts for the mid-level restaurant trade. Meat New Zealand funds a trade representative in Taiwan which recently convinced a major steakhouse chain to replace United States beef with New Zealand beef .

The initial campaign extended over a period of seven weeks between April and May, and Meat New Zealand indicated that it may extend the campaign to the rest of Taiwan and possibly to other countries. Generic marketing campaigns, according to Meat New Zealand, are more effective than the promotion of individual beef brands, given that the total budget for the promotion of New Zealand beef is limited to NZ $3.5 million this year.